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C O N F I D E N T I A L SECTION 01 OF 02 COLOMBO 001983

SIPDIS

DEPT PLEASE PASS TO E, EB, SA/INS, SA/RA, USAID FOR  
BERNADETTE BUNDY - ANE/SA, USTR FOR AUSTR WILLS; TREASURY  
FOR SRI LANKA DESK, NSC FOR ELIZABETH MILLARD; COMMERCE FOR  
ARIADNE BENAISSA

E.O. 12958: DECL: 11/17/13  
TAGS: [ECON](#) [PGOV](#) [PREL](#) [CE](#) [ECONOMICS](#)  
SUBJECT: ECONOMIC IMPACT DEEPENS AS POLITICAL UNCERTAINTY  
CONTINUES

REF: A) Colombo 1957 B)Colombo 1902 C) Colombo 1916 D)  
Colombo 1917 E)Colombo 1918 F) Colombo 1926 G) Colombo 1927  
H) Colombo 1930

**¶1.** (U) Classified by Ambassador Jeffrey J. Lunstead,  
Reasons 1.5 b, d and e.

**¶2.** (C) Summary and Introduction: Though businesses are operating on peaceful streets, and both parties to the current dispute have stated the peace process will continue, uncertainty is taking an increasing toll on the Sri Lankan economy. Planned investment, imminent purchases, stock market growth, IFI disbursements and business relationships have all suffered delays in this unpredictable environment. The longer the uncertainty continues, the harder it will be to recover lost economic ground. End Summary and Introduction.

Investment

**¶3.** (C) On November 14, Chairman of the Board of Investment, Arjunna Mahendran, told visiting Commerce DAS Williamson that \$150 million in five infrastructure investment projects are now on hold as a result of current events. Investors have not cancelled these projects, he noted, but want to wait and see what will happen. Mahendran was quoted in the press saying that investment depends on the peace process and the President has raised concerns in investors' minds. Mahendran himself took an extreme position during the interview, referring to the "probability of the resumption of war", a view we do not believe is shared by the majority of Sri Lankans.

Sales

**¶4.** (SBU) Though it is too soon for statistical information on sales, imports or exports, Post has received anecdotal evidence that business transactions have been negatively affected. Garment buyers from Lands' End, who had just arrived in Colombo to discuss increased purchases, were called back to the US by the main office, based on sensationalized reports in the media. Reportedly, Wal-Mart representatives were not allowed by their management to leave the US for a planned trip to Sri Lanka due to the perception of instability and violence. A US supplier of wind turbines told a local importer it could no longer accept orders from Sri Lanka. Seven officials from the Ceylon Chamber of Commerce, the premier business group in the country, said in a meeting that each of them had at least one or two deals held up because of the current situation.

Stock Market

**¶5.** The Colombo Stock Exchange continues its volatility. After rising on the Prime Minister's return from Washington on November 7, it fell on the November 14 news that the Norwegian mediators were putting mediation efforts on hold until a decision was made on whether the Prime Minister or the President would lead the peace process. Overall, the market fell just over 10%, week on week. Interestingly, there was a net foreign inflow, and foreign participation increased to 28%.

Business groups

**¶6.** Members of the business community seem unanimous in their desire for a quick resolution, without elections. Business groups have requested meetings with the President and Prime Minister and hope to deliver four key messages. The messages are: this dispute is damaging to specific business relationships as well as to the country's international reputation; it has the potential to undo all the progress that has been accomplished in the past 20 months; the parties should work it out without resorting to elections; and, unpredictability is the enemy of investment. At the Ceylon Chamber of Commerce, officials also noted that next year's budget, which has been delayed by Parliament's suspension, contained measures reflecting a peace dividend, made possible by the government's fiscal

discipline of the past two years.

International Financial Institutions

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17. In addition to IMF delays (ref A), the ADB reportedly considered delaying a \$50 million loan tranche due for release on November 20. It appears that tranche will move forward as planned, so long as Parliament is reopened on November 19.

Comment

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18. (C) Our consistent message to the President and the PM is that capital is a coward and the economy will suffer as long as uncertainty prevails. It seems clear the President and her advisors had no intention of rocking the economic boat with their actions, hence the numerous "clarifications" and denials in the last few days. Hopefully, they now realize the longer it takes to resolve the current impasse, the more economic damage is done. End comment.

LUNSTEAD